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Analyzing the Growth Trajectory of the Indian Life Insurance Sector

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Abstract
India has approximately 1.40 billion population, making it the most populous country in the world. In India, only an insignificant population of the country is covered by life insurance, as of now. There have been various opportunities in the life insurance sector as the maximum population has to be covered by life insurance. Life insurance is the most popular insurance in the Indian society. The life insurance market dominates the Indian insurance market in terms of customers, market size, demand, insurance penetration and density, etc. Life insurance penetration in India has surpassed the global figure, whereas life insurance density in India is far away from the global figure. High cost of insurance and Lack of awareness can be attributed to the pathetic picture of the life insurance sector prevailing in India. Governments and other stakeholders should come forward to take advantage of the opportunity in the sector for the benefit of society and the economy as well.

Keywords: Life Insurance, Insurance Penetration, Insurance Density, Insurance Market, and Life Insurance Market.

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Introduction
The insurance sector has observed three hundred sixty degree change from the pre-independence to post-independence period. The non-life insurance market has roughly one-fourth share in the Indian insurance market. Motor insurance, health insurance, and crop insurance hold the lion's share of the non-life insurance segment in India. Non-life insurance penetration in India is below one percent. Lower insurance penetration, lower insurance density, lower participation of insurers in rural India, and concentration of private life insurers in urban areas are major challenges among many other prevailing challenges against the Indian insurance sector. Insurers in India are struggling with a shortage of capital as a major problem in the sector. The financial status of public sector insurance companies in India is in an extremely pathetic condition. Growth in foreign direct investment in the Indian insurance industry has positively impacted life insurance and insurance penetration. However, it has an insignificant negative impact on non-life insurance penetration. Shortage of capital is one of the prominent reasons behind the lower insurance penetration in India. An increase in foreign direct investment is positively associated with insurer capital and insurance penetration. It has become unavoidable to bring the urban poor and uninsured rural population under insurance coverage (Bandyopadhyay et al., 2020).

Insurance penetration is a measure of growth in the insurance sector. It is the percentage of insurance premium to the Gross Domestic Product of the country. The life insurance penetration is approximately three times the non-life insurance penetration in India. Thus, life insurance penetration dominates the insurance penetration with its roughly three-fourth share in the overall insurance penetration in India. The insurance penetration in India is hardly approaching the level of four percent but insurance penetration is relatively strong in some other Asian countries like China, Malaysia, and Thailand. As per the Economic Survey, life insurance and non-life insurance penetration figures are lower than those of global figures. However, non-life insurance penetration in India is very low against the global figure. The insurance density is the ratio of insurance premium to the population of the country. The insurance density of India in 2020 was roughly seven times the value in 2001. The life insurance density in India was approximately three times the non-life insurance density in 2020. The key factors responsible for the lower insurance penetration in India are a lack of education, awareness, and complex and excessive paperwork (Sharma, 2021).

Public sector insurance companies hold a larger share of the Indian insurance market. The prevailing problems of the public sector Indian insurance companies like the absence of competition, shortage of capital, and poor financial condition restrict them from offering affordable insurance products. The ongoing privatization in India has been driven by the government's strategic disinvestment policy that will cause the bare minimum presence of public sector undertakings in strategic sectors like banks, insurance, and financial services. Indian insurance sector had been opened to the private and foreign players with the introduction of the Insurance Regulatory and Development Authority of India (IRDAI) in 2000. Foreign direct investment in the insurance sector has been raised progressively from 26 percent to 74 percent. The ongoing liberalization in the insurance sector has not produced the desired result that is evidenced by lower insurance penetration and insurance density in India against international standards. The lower insurance penetration and insurance density are the manifestation of widespread underinsurance scenario across Indian society. A research study has inferred that the insurance penetration and the insurer's financial strength are directly associated with each other. The current financial status of public sector insurers is relatively poor as compared to the private sector insurers. The presence of a large number of insurers in the insurance market would infuse competition in the market that would result in wider availability of accessible and affordable insurance products (Patnaik & Pandey, 2021).

Review of Literature

There are two mechanisms (e.g., insurance penetration and insurance density) to measure growth in the insurance sector. The ratios of total premiums to the country's GDP and country's population are called insurance penetration and insurance density respectively. Insurance penetration and insurance density had been moving upward during the first decade of the privatization of the insurance sector in India. A sharp rise has been observed in these growth measures of the insurance sector during this period. The life insurance sector did not continue growth momentum in the insurance penetration in the later phase on account of the economic slowdown, whereas the non-life insurance sector maintained this growth momentum ahead. However, insurance density has been consistently growing in India because of the privatization of the insurance sector and the strong position of the Indian economy (Arif, 2015).

In the insurance sector, drastic changes have been observed across the world during the past decade. Advancements in information and communication technology have enhanced the accountability of insurers and the aspirations of customers in terms of transparency and service quality. The next decade seems to be full of opportunities for the life insurance segment. Customer demand is at an all-time high in the life insurance sector. The pandemic-led demand in the life insurance segment is driven by risk cover i.e. mortality protection. The opportunity in the life insurance sector has two dimensions. The first is the ever-growing varied customer demands in the life insurance market [demand side dimension], and the second is profitability and growth prospects [supply side dimension]. The pandemic has made the universal and dynamic presence of digital channels across the insurance sector (Bernard et al., 2020).

Insurance cannot be treated as a choice but as a necessity. Poor insurance penetration in the country is a matter of concern. Insurance penetration in India is at a very low level despite consistent and significant improvement in insurance penetration. As per the IRDAI data, three-fourths population of India is not covered by life insurance. As per the International Labour Organisation [ILO], a substantial proportion of India's population is engaged in the unorganized sector. This fact itself signals that the larger population of India lives in a situation of financial instability. There is no precise information about the number of individuals covered by insurance. It is the call of the hour to have adequate awareness and insight into the role of insurance in an individual life ("A term insurance plan is no longer a choice, it's a necessity", 2020).

The rapid expansion of the Indian economy led by the development of digital infrastructure and innovation is likely to present the Indian insurance market as a leading insurance market in the world. The size of the Indian insurance market is expected to be $ 200 billion by the end of 2027. India is the tenth global life insurance market and ahead of China and the United Kingdom. The three major areas of disruption in the insurance sector are customer experience, distribution cost, and product innovation. Innovation and technology have transformed the insurance market and have attempted to address the issues of accessibility and affordability (Khan, 2022).

An increase in the foreign direct investment [FDI] cap in the insurance sector would be fruitful in resolving the issues of inadequate capital and lower penetration in the sector. There are numerous challenges against the Indian insurance industry, for example, low insurance penetration, inadequate capital, and lack of awareness of insurance. The life insurance market dominates the Indian insurance market with around seventy-five percent share. Non-life insurance penetration is still below one percent. Reasonable pricing of insurance products and the availability of customized insurance policies in rural areas are essential to improve insurance coverage all over the country. Some insurance companies, especially private sector insurance companies have relatively poor presence and minimal interest in the rural parts of the country (Anand, 2021).

India has been an underinsured country for a long time. There has been observed a sharp rise in the purely risk cover life insurance that is term insurance. It happened because of the marketing and distribution of life insurance products via online channels. COVID-19 has brought significant growth in the life insurance sector as the pandemic has made people realize the significance and value of life insurance in the life of an individual (Telawane, 2022).

COVID-19 has brought a significant improvement in the life insurance penetration in India, and now it has almost reached the global life insurance penetration level. As per the Economic Survey Report 2021-2022, life insurance penetration reached to 3.20% level in India during the year 2020. However, overall insurance penetration reached to 4.20% level in 2020. Thus, non-life insurance penetration in India was at 1% level in 2020. Insurance density in India increased seven times during the first twenty years of the introduction of IRDA. Substantial growth in the sale of life insurance policies has been observed during 2020-2021 (Kumar, 2022).

The insurance industry is an integral part of the Indian economy as it plays a crucial role in the overall economic development of the country. Insurance penetration in India increased to 4.20% in 2020-2021 from 2.70% in 2001-2002. However, life insurance penetration increased from 2.15% to 3.20% during the same period. The life insurance density increased from $ 9.10 in 2001-2002 to $ 69 in 2021-2022. According to a report by Swiss

Re, India has roughly 2% share in the global insurance premium and it is the tenth-largest insurance market across the globe. Moreover, it is the second largest insurance market among the emerging insurance markets in the world. The Indian insurance market has been positioned to emerge as one of the six insurance markets of the world by 2032 (Kamdin & Hakim, 2023).

Objective of Study

The main objectives of this research article are as follows:

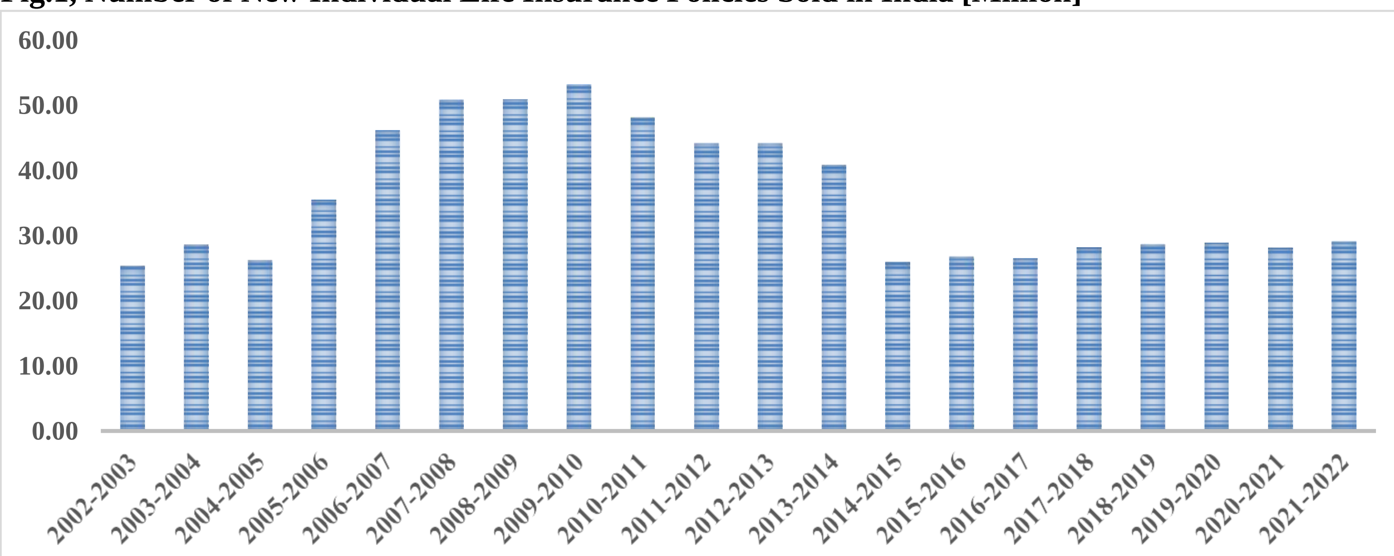
- To gauge the growth of the Indian life insurance sector.
- To assess the sources of the prevailing scenario of the Indian life insurance sector

Research Methodology

This research article is descriptive cum exploratory by nature. This article is primarily based on secondary facts and figures. Different offline and online research journal articles, newspaper articles and editorials, IRDA reports, etc. have been taken into consideration while writing this research article. Compounded annual growth rate [CAGR] and chart have been applied to analyze and present the data. The last twenty-year data [i.e, from 2002-2003 to 2021-2022] have been taken for the purpose of analysis under the article.

Data Analysis and Discussion

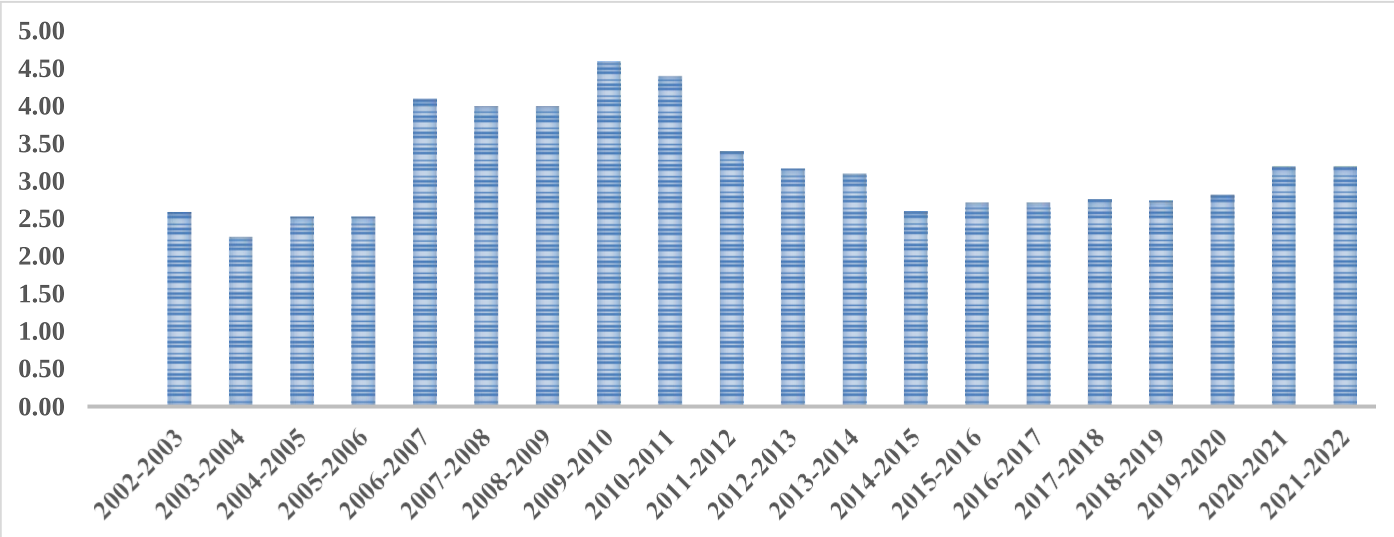
Fig.1, Number of New Individual Life Insurance Policies Sold in India [Million]



Source: *IRDA Annual Report 2002-2003 to 2021-2022*

A compound annual growth rate of approximately 0.70% has been observed in the number of new individual life insurance policies sold in India during the last twenty-year period. However, compounded annual growth rates of approximately 5.70% and -4.10% have been observed during the first ten-year period and next ten-year period.

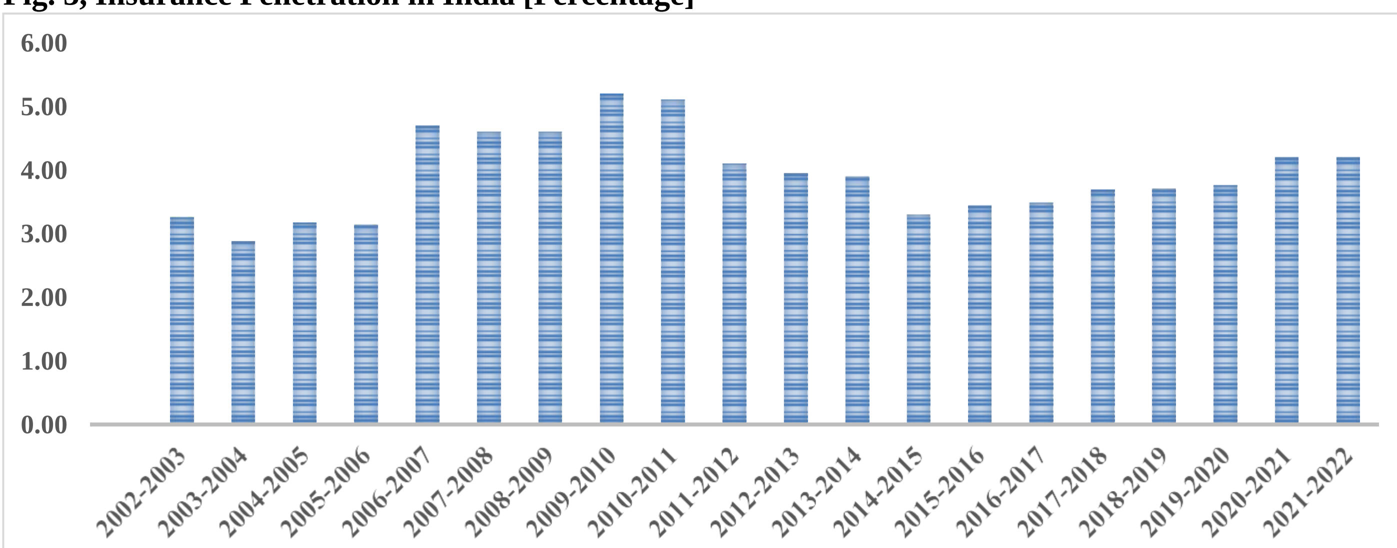
Fig. 2, Life Insurance Penetration in India [Percentage]



Source: ***IRDA Annual Report 2021-2022***

A compound annual growth rate of approximately 1% has been observed in the life insurance penetration in India during the last twenty-year period. However, compounded annual growth rates of approximately 2.80% and 0% have been observed during the first ten-year period and the next ten-year period.

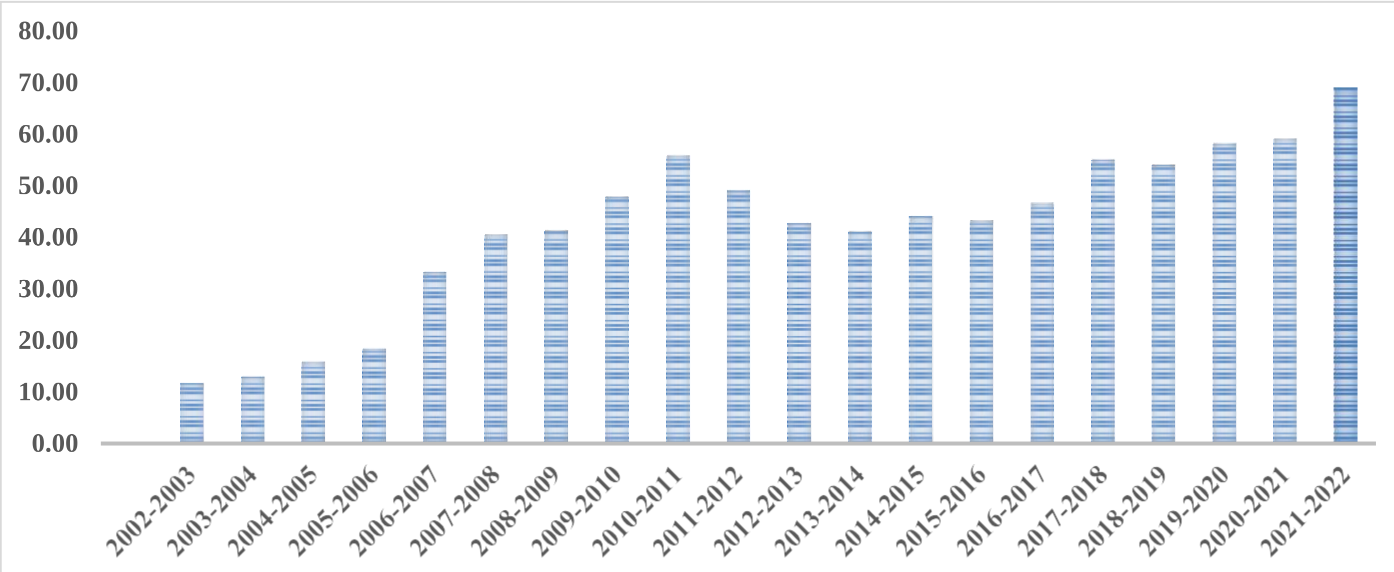
Fig. 3, Insurance Penetration in India [Percentage]



Source: ***IRDA Annual Report 2021-2022***

A compound annual growth rate of approximately 1.30% has been observed in the insurance penetration in India during the last twenty-year period. However, compounded annual growth rates of approximately 2.30% and 0.60% have been observed during the first ten-year period and the next ten-year period.

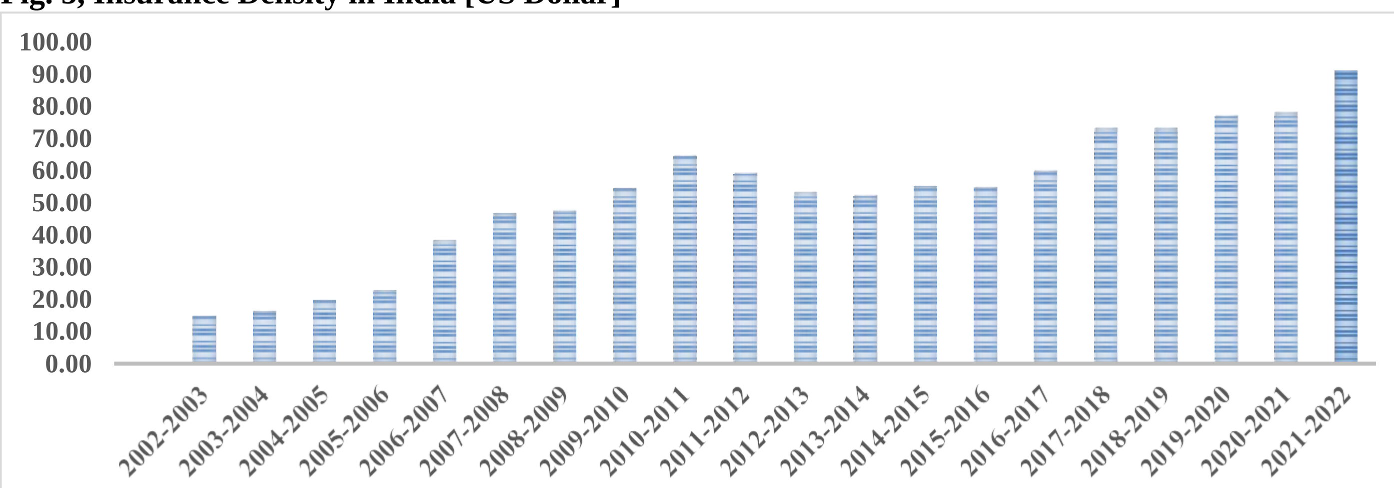
Fig. 4, Life Insurance Density in India [US Dollar]



Source: ***IRDA Annual Report 2021-2022***

A compound annual growth rate of approximately 9.30% has been observed in the life insurance density in India during the last twenty-year period. However, compounded annual growth rates of approximately 15.40% and 4.90% have been observed during the first ten-year period and the next ten-year period.

Fig. 5, Insurance Density in India [US Dollar]



Source: ***IRDA Annual Report 2021-2022***

A compound annual growth rate of approximately 9.50% has been observed in the insurance density in India during the last twenty-year period. However, compounded annual growth rates of approximately 14.90% and 5.50% have been observed during the first ten-year period and the next ten-year period.

It has been observed that the compounded annual growth rates of the life insurance penetration, life insurance density, insurance penetration, insurance density, and sale of new individual life insurance policies during the first ten-year period of the study [2002-2003 to 2011 to 2012] were remarkably outstanding. However, the compounded annual growth rates of the same parameters during the next ten-year period [2012-2013 to 2021-2022] of the study have been observed significantly low. This scenario of the life insurance market indicates a sharp decline in the demand for life insurance products that might be because of a number of explicit and implicit factors responsible for the case at hand.

Underlying Causes of Lower Life Insurance Consumption

The fundamental underlying reason behind the lower insurance penetration in India is higher insurance premium. It is the basic factor that deprives the larger section of the society of insurance. Therefore, a larger population of the country is uninsured or underinsured. Life insurance coverage in the rural part of India varies from eight to ten percent. It is inevitable to explore the market extensively in rural India in order to increase the insurance market footprint in India. Systematic application of technology can prove instrumental in enhancing insurance penetration in India. Accessible and affordable models of insurance are essential for the rural population. Small ticket or bite-sized insurance products can be helpful in making insurance affordable and accessible to a larger population of the country. The higher tax rate at insurance premiums makes the insurance products very expensive. Therefore, GST being charged on insurance premium may be removed or reduced significantly. Insurance must be made widely accessible via insurance companies. India is one of the most underinsured countries in the world as a substantial proportion of the population is not fully aware of the benefits of insurance among many other underlying reasons. Therefore, insurance companies should take the initiative to increase awareness among the common masses via awareness campaigns, customer awareness seminars, press releases, etc. The COVID-19 pandemic has brought significant awareness in society to insurance products, especially life insurance and health insurance (Ganatra, 2022).

The life insurance sector plays a significant role in the economy. A variety of socioeconomic and institutional factors determine life insurance consumption across the world. Life insurance density, life insurance penetration, and life insurance in force measure various aspects of life insurance consumption. The majority of life insurance policies offered by insurance companies across the world can be categorized into three categories, namely policies for risk coverage only, policies for risk coverage and saving, and policies primarily focusing on saving. A life insurance policy only for risk coverage and protection is known as a term insurance policy. The life insurance policy for both risk coverage and saving is popularly called a whole life policy, universal life policy, and variable life policy. A life insurance policy offering no or little risk coverage is a policy primarily focusing on saving. Life insurance penetration is not a perfect measure of life insurance consumption. Gross premium is used in the computation of insurance density and insurance penetration. Life insurance penetration is the measure of life insurance consumption in relation to the size of the economy. However, life insurance density is the measure of life insurance consumption irrespective of the size of the economy. A significant difference has been observed in the levels of life insurance consumption across the world. Life insurance consumption is the function of wealth, expected income over an individual's lifetime, interest rates, and cost of life insurance policies. Life insurance consumption is not only driven by consumer demand but also by the supply side factors. Education is closely associated with all the indicators of life insurance consumption. Thus, level of education and price stability are the more robust determinants of life insurance consumption all over the world (Beck & Webb, 2002).

Conclusion and Way Forward

The Indian insurance market is one of the emerging insurance markets of the world. On one hand, India has become the most populous country in the world; on the other hand, it has a huge population to be covered by life insurance. India is one of the most underinsured countries in the world. Ever growing middle-class population and disposable income herald better prospects in the Indian life insurance sector. Life insurance is the most preferred insurance in India. The majority of the population of India is absorbed in the unorganized or informal sector where the security of jobs and the presence of social security measures are almost nominal. Thissituation signals the greater significance and scope of life insurance across Indian society.

The lack of insights into insurance among the common masses and the higher cost of insurance can be attributed to the lower life insurance penetration in society. Life insurance consumption determinants can be divided into two categories, namely supply-side determinants and demand-side determinants. Major demand-side determinants of life insurance consumption are education, income, and employment. Cost of insurance, access to insurance, and insurance procedure are some of the crucial supply-side determinants of life insurance consumption. It is worth mentioning that the lack of proper knowledge of insurance and the ever-growing cost of insurance are major obstacles to the growth of life insurance penetration and life insurance density in India.

Therefore, the central government, the Insurance regulatory and development authority of India, the Life Insurance Corporation of India, private sector life insurance companies, and other major stakeholders of the Indian life insurance sector should come together to resolve the issue of lower insurance penetration and density in a phased manner. The role of the union government and insurance regulator is of great significance in preparing the ground for accelerating insurance penetration and insurance density in the country. The union government has enormous powers to enact an appropriate law and to make amendments to the prevailing laws to deal with the issue of underinsurance in the country. Further, the IRDA as a watchdog of the insurance sector, has to facilitate the implementation of the government mission and vision with regard to the expansion of the insurance sector in India.

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